



Moody's Investors Service

Global Credit Research

New Issue

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New Issue: Maricopa (County of) AZ

MOODY'S UPGRADES MARICOPA COUNTY (AZ) LEASE REVENUE BOND RATING TO Aa2 FROM A1**ISSUER RATING OF Aa1 WITH STABLE OUTLOOK ALSO ASSIGNED**

Maricopa (County of) AZ
County
AZ

Moody's Rating**ISSUE****RATING**

Lease Revenue Bonds, Series 2007A and Lease Revenue Refunding Bonds, Series 2007B Aa2

Sale Amount \$137,705,000

Expected Sale Date 04/30/07

Rating Description Lease Revenue Bonds

Moody's Outlook Stable**Opinion**

NEW YORK, Apr 26, 2007 -- Moody's Investors Service has assigned an Aa2 rating with a stable outlook to the Maricopa County, Arizona, Lease Revenue Bonds, Series 2007A and Lease Revenue Refunding Bonds, Series 2007B issued by the Maricopa County Public Finance Corporation. At this time, Moody's has also upgraded to Aa2 from A1 the rating on the County's parity lease revenue bonds Series 2001 and 2003 and assigned an issuer or implied unlimited tax general obligation bond rating of Aa1 with a stable outlook. The rating on the County's certificates of participation (COPs), Series 2000, was also revised to Aa3 from A2, reflecting the less essential nature of the leased asset. The rating upgrades reflect the significant expansion in the County's regional economy and tax base, very low debt burdens, and a socioeconomic profile that is typical for a large, urban county. The rating revisions also incorporate the significant improvement in the County's financial operations and expectation that management will continue to approve structurally sound budgets. Supporting the County's long term fiscal health was the achievement of several key milestones including voter approval to create an independent hospital district with its own taxing authority, the County's recent discontinuation as a health plan provider, continued voter support for a public safety sales tax, and significantly improved financial policies and practices at the County. Although the County continues to face expenditure constraints, Moody's believes that management has demonstrated the ability and willingness to maintain sound and stable operations that are consistent with a very strong credit rating. The current offerings are secured under a master lease purchase agreement which also secures the County's lease revenue bonds, Series 2001 and 2003. The Aa2 rating reflects the County's strong incentive to make annual lease payments, which are subject to annual appropriation, given the master lease structure that requires appropriation for all or none of the projects, the largely essential nature of the cross-collateralized leased assets, and relatively affordable lease debt burden.

COUNTY BENEFITS FROM PERIOD OF SIGNIFICANT EXPANSION; SLOWING ANTICIPATED, BUT GROWTH RATE SHOULD EXCEED NATIONAL AVERAGE

Moody's expects Maricopa County's economy will continue to be one of the stronger economies in the nation, despite the recent slow down. Since 2003, the Phoenix (GO rated Aa1) metro area's economy has been amongst the fastest growing employment centers in the nation. The rapidly expanding construction industry has been the largest source of job growth, which will likely become a drag on the economy going forward. Housing start counts and residential building permit values declined in 2006 by 14% and 29% compared to peak levels in the two prior years and inventory counts as of CYE 06 show a significant amount of excess

inventory. While modest, but still positive in-migration of residents will help absorb this, it will likely take some time. Continued commercial construction and a number of large public works projects should help provide a floor to construction job declines. Nevertheless, given the diversity of its economy, expected growth in other industries including leisure and hospitality, manufacturing, and state and local public sectors, as well as a strong research base, the County's economy should continue to outperform the national average.

Maricopa County is the fourth largest county in the U.S. with almost 3.8 million residents, or roughly 62% of Arizona's (issuer rating Aa3) total population. In 2006, Arizona was the fastest growing state in the nation. The County directly benefited from the strong in-migration with nearly 76% of the state's population growth from 1996 to 2006 occurring in the Phoenix metropolitan area. Correspondingly, tax base growth has been very strong, averaging 15.9% over the last five years with an extraordinary 56.4% increase in 2007 alone, pushing the total value to \$377.2 billion in 2007, which is amongst the largest tax bases for Aa-rated county. Growth rates are expected to moderate to more sustainable levels given the softer housing market. Only during the fiscal years 1992 to 1994 did the County experience decreases in its AV averaging 2.9% annually, due to a statewide methodology change.

Wealth indices for the County remained fairly stable relative to the state and U.S. in the mid-decade census. Per capita and median family incomes measured 108% and 110% of state levels, respectively, which is consistent with other peer-rated, large, urban counties. Of note, full value per capita has significantly improved over the last four years, reaching \$99,451 compared to \$55,971 in fiscal 2004, reflecting the home value appreciation and increasing commercial and industrial presence.

CONSERVATIVE FISCAL MANAGEMENT ENSURES FISCAL STABILITY

Maricopa County's financial operations can be characterized by prudent, long-term financial planning, with regular and frequent re-assessments. Such practices combined with prudent contingency policies supports Moody's expectation that the County will continue to maintain sound and stable operations that can withstand transitions in both economic conditions and management. Since 2002, the County's total general fund balance increased from \$161.2 million (22.5% of revenues) to an estimated \$607.3 million (52.5% of revenues) in 2006. The bulk of this consisted of an unreserved balance totaling \$539.6 million (46.6% of revenues), well above the County's policies to maintain a \$86.2 million (15%) budget stabilization reserve and an additional \$94 million to provide for adequate liquidity. Management also budgets in the both the general and detention fund an extra reserve of roughly \$23 and \$14 million respectively. Ten year forecasts are prepared both internally and externally and, in fiscal 2003, management revised its procedures to base budget revenues on the most pessimistic scenario. As a result, the County's operating surpluses were quite significant in the last two years. As the County's economy and corresponding revenue streams, transitions to a slower pace of expansion, management has actively revised budget forecasts and associated expenditures. Moody's notes that the County does not have an unfunded liability for either its pension or post employment benefits (OPEB) plans. Litigation for up to \$240 million in potential claims related to the Arizona Health Care Cost Containment System, or AHCCCS program, remains outstanding; officials indicate that a settlement is expected to be reached in the near future at an estimated level of roughly \$25 million.

COUNTY REMOVES ITSELF FROM HOSPITAL OPERATIONS AND ROLE AS HEALTH PLAN PROVIDER; EXPENDITURE MANDATES STILL REMAIN, BUT APPEAR MANAGEABLE

Since 2003, the County has achieved several key milestones which have and will continue to contribute to its long-term financial health. In November 2003, voters approved the creation of the Maricopa County Special Health Care District. Since that time, the District has and is currently levying up to the maximum \$40 million annually in property tax revenues to fund its operations and all assets and liabilities with the hospital have been transferred to the District. The County made a modest one time financial assistance loan to the County in 2005 to assist in the transition. However, officials report that the County has no other financial or operating responsibility for the Special Health Care District. Additionally, the County has discontinued acting as a health care plan provider for all three of its plans: Senior Select (which was closed on 12/31/2004), Arizona Long-Term Care System or ALTCS (closed on 9/30/2005), and AHCCCS (which was transferred to the Health Care District on 8/29/2005). The removal of the hospital and health plans as financial and operating responsibilities of the County are key factors contributing to Moody's expectation that operations will remain sound. The operating challenges and complexity associated with these health care expenditures were multifaceted and required the County to make significant operating subsidies, which plagued the County's general fund during the early and mid-1990s when the general fund balance reached deficit levels.

The County continues to face challenges on the expenditure side as the bulk of its remaining expenditures are for mandated programs for which the County's ability to constrain increases is somewhat limited. Key amongst these is public safety, which represented 51% of the 2006 expenditures. Importantly, in 2002, voters approved a 20-year extension of the 1/5 of one cent sales tax for public safety beginning by June 2007 to fund operations. Nevertheless, in the last three years, public safety costs have grown at double digit rates;

the current debt issuance looks to address this concern by improving the efficiency of the justice court system. The County's second largest expenditure is state mandated payments for ALTCS and AHCCCS which together, representing 19% of expenditures in 2006. Costs for ALTCS are shared between the state and counties equally under a formula that grows based upon case load and health care costs, and as such, the County's ALTCS payments have grown rapidly. AHCCCS payments are also mandated but capped at a fixed dollar amount of \$24.5 million.

RISK OF NON-APPROPRIATION IS REMOTE GIVEN AFFORDABLE LEASE BURDEN AND MASTER LEASE STRUCTURE FOR LARGELY ESSENTIAL FACILITIES

The current offerings are secured by lease payments under a master lease structure subject to annual appropriation and renewal, with an automatic extension made at the beginning of each fiscal year in which the County appropriates the lease payment. Additional security is also provided by a debt service reserve fund equal to the lesser of 10% of par, maximum annual debt service, or 1.25 times annual debt service. The value of the leased assets is \$670,300 above the par amount of certificates outstanding. Moreover, Moody's believes that the essential nature of all of the leased assets, which includes eight facilities and associated land which are utilized for key governmental services including administration, justice courts, forensic sciences, detention, and animal control, significantly reduces the risk of non-appropriation. The maximum annual combined leased payments for the outstanding certificates, net of the Series 2000 Certificates, but including all operating and capital leases, is \$29.4 million (in 2008), representing a modest 2.5% of FY06 General Fund revenues.

MAINTENANCE OF FAVORABLE DEBT PROFILE GIVEN MODEST FUTURE BORROWING

Moody's expects the County's debt profile to remain favorable given moderate future borrowing plans, expected tax base growth, and average principal payout (48% in ten years). Counties typically have modest debt burdens, but even in this setting Maricopa County's debt burdens are amongst the lowest in its peer group with direct and overall levels at 0.1% and 1.8%, respectively. The County's direct net debt is less than \$230 million, translating into a very modest debt per capita ratio of \$63. Traditionally, the County has generally funded the bulk of its capital needs on a pay-go basis and management expects this practice to continue.

Officials anticipate issuing an additional \$121.9 million in lease revenue bonds in 2008 on a parity basis to complete improvements to the justice court projects. The County has several other capital needs in its long range facility plan; two projects that are on high priority include a court tower, with an estimated cost of up to \$350 million, and a downtown administrative building, estimated at \$250 million. Management anticipates financing the projects from a mixture of lease revenue bond proceeds as well as utilizing cash reserves.

Outlook

The outlook on Maricopa County's long term rating is stable and reflects the expectation that the County will maintain a favorable debt profile and sound reserve levels as targeted by management.

KEY STATISTICS

2006 Estimated population: 3.8 million

2005 Per capita income: \$25,171 (108% of state and 101% of U.S.)

2005 Median family income: \$56,818 (110% of state and 102% of U.S.)

2007 Full market value: \$377.2 billion

Average annual growth in full value, 2002 to 2007: 15.9%

Full value per capita: \$99,451

Direct debt burden: 0.1%

Overall debt burden: 1.8%

Principal payout (10 years): 48.1%

Peak lease debt burden as % of 2006 GF Revenues: 2.5%

FY05 General fund balance: \$431.3 million (39.8% of revenues)

Unaudited FY06 General fund balance: \$565.2 million (49.2% of revenues)

Unaudited FY06 Unreserved and undesignated GF balance: \$539.6 million (46.6% of revenues)

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